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ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

VOLUME VII | AUGUST, 1950 | NUMBER 8

HIGHLIGHTS OF BUSINESS IN JULY

By July the American economy was well on the way toward one of the biggest booms in its history. The Federal Reserve index of industrial production for June, at 199, had already surpassed the previous peacetime high of 195 in October-November, 1948, though considerably below the wartime peak of 249 in the fall of 1943. With most industries attempting to increase output still further, industrial production is clearly headed for higher peaks. Limitations on capacity and inadequate supplies of raw materials loom as the main bottlenecks to further expansion. Automobile production has already been cut by steel shortages, and partly as a result of this fact July vehicle output is expected to drop 19 percent below June's record 860,000 units produced. Home building, which set an all-time record in June with 142,000 housing starts, will also probably be cut back as materials are diverted to other uses and as mortgage terms are tightened.

Prices Rise

Prices were moving up all along the line during July. With only moderate inventories on hand at the start of the Korean conflict, wholesalers and manufacturers have greatly stepped up orders, partly to meet increased demand for their own products, and partly as a precautionary measure. As a result, the price index of 28 sensitive commodities has jumped upward by 11 percent within the space of a single month. Lead, lard, rubber, and shellac rose as much as 10 percent in some weeks. It is therefore not surprising that the month witnessed new postwar highs in a number of commodities, such as coffee, tin, hides, hogs, cotton, print cloth, sugar, cocoa, and rubber.

Reflecting the upward pressures on prices, the Bureau of Labor Statistics wholesale price index had risen 3.7 percent during the first month of the Korean War to 162.9 percent of the 1926 average; that is more than the index had risen during the entire preceding year from the recession lows of 1949, though it is still below the postwar high of 169.5 in August, 1948. The main increase over the past month has been in meat prices, which jumped nearly 12 percent. The wholesale price of foods in general has risen 7.3 percent, while prices of farm products rose 5.5 percent. In industrial materials, the main price increases occurred in chemicals, up 3.3 percent, and in textiles, up 2.7 percent.

Retail Sales at Peak

The picture at the retail level is much the same as at the manufacturers' level. At $11.6 billion after seasonal adjustment, retail sales in June were at an all-time high, 2.9 percent above the preceding month. Almost all of the increase took place in the sales of durable goods stores, which rose 7.3 percent. As expected, the main increase occurred in automotive sales, up 10 percent.

A new high in seasonally adjusted retail sales is very likely for July. The month has seen a flood of new orders for all types of durable goods, and many automobile dealers already have more orders than they can fill for the next three months. There is also considerable evidence of hoarding, judging by the sellouts in many stores of such commodities as sugar and tires. Indicative of the continued high spending is the rise of department store sales in the last week of July, 57 percent above the corresponding week of 1949, the largest such increase ever recorded.

Stock Prices Mixed

One area where recent events have, if anything, had an adverse influence on prices is the stock market. The Dow-Jones average of 30 industrial stocks, after reaching a high of 228 on June 12, broke sharply with the Korean invasion and declined to a low of 197 on July 13. About one-third of the loss was later regained. Fear of shortages, controls, and increased taxes was a major cause.

Utility stocks dropped 15 percent. Since utility rates are pegged, the increased costs that generally result during war act to squeeze profit margins in the industry. Railroad stocks, on the other hand, surged upward, the Dow-Jones average of 20 rail stocks rising 19 percent in a little over a month. Capacity traffic resulting from remobilization is almost bound to lead to high railroad earnings, and because of their heavy invested capital railroads occupy an advantageous position in case of an excess profits tax.

Because of the annual vacation of the University Print Shop this issue of the *Review* is reduced in size. It omits the usual statistical data, which are generally not yet available. We shall be glad to send copies of the missing tables to anyone requesting them. The next issue will contain the usual 12 pages.

Special feature: ILLINOIS FREIGHT TRAFFIC · By Robert W. Harbeson · Page 6

ILLINOIS BUSINESS REVIEW

Published monthly by the

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. The *Review* will be sent free on request.

Entered as second-class matter February 5, 1944, at the post office at Urbana, Illinois, under the Act of August 24, 1912.

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Economic Effects of the War

Part of the confusion growing out of the Korean War arises from the fact that our thinking had never been adjusted to the possibility of outbreaks of this kind. Washington planning had been at the extremes of full mobilization, on the one hand, and full employment policy without regard to military affairs, on the other. Nowhere was there a blueprint of what would be wanted or needed in the first year of forced mobilization in the absence of an all-out war.

Appearance of the Prewar Economy

The essence of the business outlook is that we are moving into a prewar type of economy likely to persist for some time. Anything can happen, of course, but our guess is that World War III will not come in the near future. There may be other local outbreaks — in such sensitive spots as Jugoslavia, Iran, and Southern Asia, especially Indo-China — but none of these seems likely to provide sufficient reason to bring in the Russians themselves. The prospects, therefore, favor a period of several years of rearmament, with prosperity and high employment, but no all-out war effort.

Whatever the actual war situation, military expenditures will be increased sharply. President Truman has already requested an additional $10 billion expansion of the military program. Actual military expenditures will not increase by anything like this full $10 billion in the first year because of the time required to get production under way. What is spent depends on how much can be done, not on how much money is made available for doing it. The best estimates now available indicate an increase in the annual rate of expenditures of only about $5 billion in the course of the next year, a volume that could easily be turned out without strain.

More important from an economic point of view was the sharp expansion of civilian demand over existing boom levels, as the Korean situation brought back the reactions of wartime. Both consumers and business joined in a concerted rush for goods — to protect themselves against shortages and price increases. There were also concerted efforts to speed up construction projects of all kinds. The inflationary pressure created has been evident in the acceleration and spreading of price advances.

The immediate spurt may be regarded as a temporary phase, one that will burn itself out with the passing of fear. As inventories accumulate, pressure will be relieved. Yet, so many factors are now combined to support the upward movement that it is clearly an affair of more than just a few months. With business in so liquid a condition, and consumers holding so large a volume of liquid savings, spending is practically unlimited and will almost certainly be more than the economy can produce, particularly in the durable-goods industries. Adjustment to the new situation may be delayed until priorities or other controls take effect; and the first steps to establish such controls are already being taken.

The Outlook for Controls

The real pinch will come in key industries like steel, which were already operating at capacity. Additional piling up of orders on the books can now only result in restriction of acceptances. Some military programs have already been slowed by lagging deliveries, and the recent concentration of civilian demands will tend still further to aggravate the accumulation of unfilled military contracts. Difficulty may be encountered in placing new contracts for metal products, as it was in the early part of 1941. In such circumstances, the use of priorities will be unavoidable.

As soon as priorities are given to military products, there will inevitably be demands for assistance to other essential activities, such as transportation and utilities. Hence, while direct military demands for steel may remain relatively limited, the total volume directed into essential activities will be considerably larger. Even allowing for this, the total volume of steel moving under priority orders seems unlikely to exceed a fraction of the total supply.

During the period of partial mobilization, while this continues true, the controls used are likely to be moderate in character and confined to a few critical materials. All-out allocations and price controls are hardly possible in this country without all-out mobilization; resistance to such controls can be overcome only by a real emergency need for them. Consequently, controls may take the form of voluntary agreements, similar to those which were used by the steel industry in the early postwar years. In some cases, such arrangements may be supplemented by a monopoly of foreign buying, like that recently used for rubber.

Use of controls will, of course, divert materials away from less essential uses; and steel seems likely to be the most critical controlled material from the standpoint of curtailing civilian production. Even with the steel industry free to "allocate" the bulk of the supply among its customers, cutbacks in production of many steel-consuming products like autos and houses will be inevitable. How large the cutbacks will be depends partly on how effectively the distribution of critical materials can be organized. Moderating the scramble that aggravates imbalances is precisely the intent of credit and other controls on consumer buying.

Margins for Expansion

To place all emphasis on inflation and shortages, however, is to overlook the margins for expansion that exist in our economy. A common view of the Korean situation is that the Russians brought it on with a view to weakening us by draining and dispersing our resources. The error of this concept lies in the fact that we gain strength by producing. We have the resources to create and maintain a large military machine without any real

(Continued on page 7)

DRUGS AND PHARMACEUTICALS

The production of drugs and pharmaceuticals has been expanding rapidly since the start of World War II, stimulated by the large wartime military needs, rising consumer incomes, and the outstanding recent progress of pharmaceutical research. There are few industries that change and improve their products so frequently.

During 1949, production of sulfa drugs almost doubled, and penicillin sales were higher than ever before. Production of synthetic vitamins, another of the drug industry's biggest postwar sellers, was up 12 percent from 1948.

A Diversified Industry

There is an almost infinite variety of drugs and pharmaceuticals. A 1947 Federal Trade Commission report revealed that the drug industry, which had 1,350 firms, was the least concentrated of the 26 leading industries studied, with less than 25 percent of its total assets held by its three largest companies.

The products of the drug industry are divided into four classifications: medicinal chemicals such as vitamins; biological preparations such as serums; botanical drugs and herbs; and pharmaceuticals. The production of pharmaceuticals, primarily the fabrication of drugs and medicines in the form of ampules, tablets, capsules, ointments, and solutions, took the lion's share of the $1.2 billion value of drugs produced in 1947 and amounted to almost four times the combined total of the other classes.

Only about half of the annual output of pharmaceuticals is specially packaged and offered for sale to the general public. These drugs that are retailed under brand names are referred to as proprietary pharmaceuticals and include such products as milk of magnesia, aspirin, cough and cold products, and vitamins. The other half, the so-called "ethical" drugs, are sold to or prescribed by physicians. The continual development of new products through research is most typical of the ethical drug houses.

Illinois a Leading Drug Producer

In 1947 Illinois was listed as the fourth ranking state in the nation in product value of pharmaceutical preparations. The 100 Illinois firms in the industry employed 7,000 workers and contributed $99 million to the total $941 million national value of product. In addition to producers of pharmaceuticals, the State had 1 plant preparing botanical drugs, 9 manufacturers of biological preparations, and 6 producers of medicinal chemicals.

One of the largest manufacturers of drugs and medicines in Illinois is the Abbott Laboratories in North Chicago which manufactures more than 1,200 pharmaceuticals and is rated the third largest seller of ethical drugs in the nation. Another large Illinois drug manufacturer is the G. D. Searle Laboratories in Chicago, producers of the Dramamine seasickness drug.

By-products of the meat-packing industry provide over a hundred medical preparations, most of them extracts from animal glands. The pharmaceutical laboratories of Armour and Wilson in Chicago manufacture such products as thyroid, liver, and pituitary extracts, and are doing outstanding work in the field of hormone research.

A number of the animal hormones, including insulin, epinephrin, and thyroxine have been used medically for years. Recent emphasis, however, has been on the adrenal secretion called cortisone, and ACTH, the pituitary hormone which stimulates the production of cortisone. Although cortisone has been a remarkably effective treatment for arthritis and shows promise of checking other diseases, present production has been sufficient for research purposes only. More actual clinical work has been done with ACTH, which is manufactured by both Armour and Wilson and has been effective in the treatment of gout, rheumatic fever, and allergies.

The "Wonder Drugs"

Up to 1945 the sales of the ethical drug industry roughly paralleled the ups and downs of disposable income. After World War II, however, the industry began an unprecedented expansion which boosted ethical drug sales 71 percent to $714 million between 1945 and 1949, while disposable income rose only 27 percent. The sulfas, vitamins, and antibiotics were largely responsible for this development, together with continuing high demand for the many symptom- and pain-relieving compounds that have been the foundation of the drug industry.

The first compounds labeled "wonder drugs" were the sulfanomides, a German discovery that came on the market in the middle 1930's. Man-made products of the chemical laboratory, they proved to be especially effective against streptococci, meningitis, and gonorrhea.

Just before the war, scientists began the intensive study of antibiotics, the natural chemical substances manufactured by bacterial molds in a sort of chemical warfare against other types of bacteria. Penicillin, released commercially about 1940, was the first one found to be effective against disease and yet comparatively harmless to human tissue. Although it made bacterial pneumonia easier to cure than the common cold, penicillin is relatively ineffective against virus pneumonia and many other types of germs. Streptomycin, discovered in 1943, and the recently discovered antibiotics, aureomycin, chloromycetin, and terramycin, have effectively widened the range of pharmaceutical defense against disease.

The production of antibiotics, already almost 25 percent of ethical drug sales, is just beginning, and it is expected that in the future the industry will develop checks for such deadly killers as cancer, polio, and tuberculosis, as well as the three top infectious diseases, measles, chickenpox, and mumps. Although the rapid changes in pharmaceutical production may affect different companies in different ways, because of extensive programs of research the long-term outlook for the drug industry as a whole is brighter today than at any other time in its history.

RECENT ECONOMIC CHANGES

Production Slacks Off

Following June's peacetime high in industrial activity which carried the FRB index to 199 (1935-39 = 100), production was generally off a little in July because of Independence Day and summer vacations. Automotive output was down in the holiday week to a total of 117,000 vehicles, but rebounded to 185,000 weekly in the next two weeks. The industry reports that some steel shortages are being felt, and total July production is estimated at 700,000 cars and trucks. Steel output averaged nearly 97 percent of capacity for the month, with total production at about 7.5 million net tons of ingots and castings.

The persistent high demand for steel, which even capacity production failed to meet, was aggravated by the outbreak of war in Korea to such an extent that several industry leaders were asking for a scheme of voluntary allocations. In an effort to satisfy increasing demand, steel companies are planning sizable additions to their capacity. Thirteen big steel companies expect to make additions totaling 6,363,000 tons to their capacities by the end of 1952. Increases of 1,170,700 tons in the first half of this year brought total potential output for the industry to 100,563,500 tons.

Inventories Up Slightly

Business inventories, seasonally adjusted, again rose slightly during May to the highest point since last July. Manufacturers' stocks showed a $300 million increase, and wholesale and retail stocks rose about $100 million each. Total business sales were up $2.8 billion. Nearly 70 percent of the gain occurred in manufacturing sales. May sales and stocks, in billions of dollars, are as follows:

	Stocks	*Sales*
Manufacturing	31.5	20.4
Wholesale	9.5	7.9
Retail	14.3	11.3
Total	55.2	39.6

At their postwar peak in December, 1948, and January, 1949, business inventories totaled $58.6 billion, seasonally adjusted, whereas sales amounted to $38.3 billion and $36.2 billion, respectively, in those months. Thus it may be seen that larger business sales are now being supported by smaller stocks of goods, a fact which holds true at all levels — manufacturing, wholesale, and retail. A year-to-year comparison, from May, 1949, to May, 1950, shows similar changes in the sales-stock ratios.

At least some of the inflationary pressure now being exerted on prices reflects additions to inventories, as retail firms especially build up stocks in preparation for the fall season. It is also reported that firms which have been running on short inventories in anticipation of price declines have gone into the market for added supplies to raise stocks to about a 90-day level.

Housing Still Booming in June

Still another new record was set in June with 142,000 new nonfarm housing units started during the month, nearly 50 percent above the June, 1949, level. June starts brought the total for 1950 to 687,000 units, more than half again as many dwellings started as in the first six months of 1949.

By mid-July, however, the housing picture was a little less rosy. In the partial mobilization of the nation's resources for the uncertain period ahead, the President placed further restrictions on public housing projects and on credit for house purchases. Conservation of materials for defense construction was the chief aim of the restrictions. It is generally believed, however, that effects of the added requirements will not be felt for a few months.

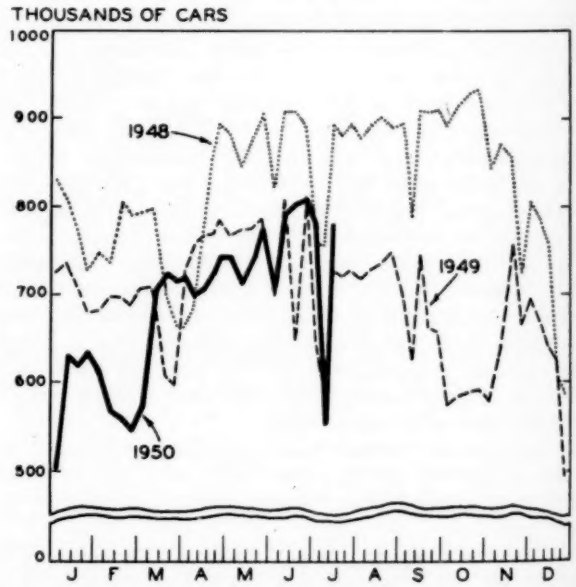
Personal Income Holds

Although the nonrecurring payment of dividends on National Service Life Insurance fell off sharply, personal income declined only $500 million from April to May to a total of $213.3 billion at an annual rate. Excluding the dividend payments, income rose from $209.7 billion during April to $212.2 billion during May. Increases in payrolls and proprietors' income were chiefly responsible for the gain. Wage and salary payments in May this year were at a near-record $136.4 billion as compared with $132.7 billion a year before. Proprietors' and rental income was down in the year, however, from $42.6 billion to $41.5 billion.

Carloadings Recover

The rebound in business activity has reversed the downward movement in freight carloadings that prevailed through 1949. As shown in the accompanying chart, carloadings have risen considerably since the beginning of the year and now generally exceed the level of 1949. With industrial production maintained at a high level, it is probable that carloadings will continue to move up. Already some shippers are entertaining the view that the fall pickup will increase the present freight car pinch, which ran to a net daily average shortage of about 5,000 cars during June. The outlook is still further darkened by the fact that so many of the cars now in use are overage. Government transportation authorities and railroad leaders, however, feel that heavier loading and shorter loading and unloading time will help meet any increase in demand. Recently, also, two large insurance companies, Equitable Life and Prudential, have announced plans to help a number of railroads finance the addition of new cars.

FREIGHT CARLOADINGS IN THE U. S.



Source: Association of American Railroads.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Magnetic Detecting Device

A low-cost magnetic detecting device for locating faults in metal parts is being distributed by the Magnaflux Corporation. Based on equipment formerly available only at high cost and used largely in mass-production plants, the new device will allow small and medium-sized plants to use magnetic inspection on parts up to 54 inches long and 12 inches in diameter. A magnetic field is induced in the material to be tested, and wherever cracks occur powdered iron filings gather and reflect a line of weakness under violet ray lights. Detection of cracks or fissures even as small as one ten-thousandth of an inch is practical.

"Mechanical Brains"

The story of "mechanical brains," how they think, what they do, and what they may mean in the future, is told by Edmund C. Berkeley in a book entitled *Giant Brains* (New York: John Wiley and Sons, Inc., $4.00). Berkeley believes that these machines, built only since 1940, have future possibilities so vast that a second industrial revolution may be beginning. Although it describes several of the existing large-scale computers, including ENIAC and Harvard's IBM sequence-controlled calculator, the book is not purely descriptive but evaluates future possibilities and problems of control. Intended for everyone, it is written in an informal style, and technical explanations are reserved for the generous supplements.

An electronic "brain" system has been installed in the Pennsylvania station in New York City and is expected to be in use throughout the Pennsylvania system by the end of next year. A semi-automatic device makes it possible for a customer at a ticket window to learn in less than 60 seconds what space is available on a train for any date and pick up the ticket immediately.

Claude Neon, Incorporated, has developed an electronic computer that can be used to speed equipment tests and is finding increasing application in the automotive and aviation industries for testing airplanes, automotive crankshafts, and guided missiles before they have gone on the engineering draft table. Mathematical problems previously requiring months can be solved in several days, and quick evaluation of a proposed design may eliminate the need of expensive pre-production models that would have proved unsatisfactory.

An electronic "brain" system recently installed in the Flint, Michigan, Buick plant of the General Motors Corporation automatically provides for 14,000 variations in design, style, or color, solving the problem of scheduling mass production with variety despite standardization. Buick assembly lines can now mechanically meet any combination of customer specifications through the use of teletype and perforated tape communications, punched order cards, and machines which "read" specifications electronically from pencil marks. Since cost records and shipping notices are electronically tied in, there is almost complete mechanization of office routine.

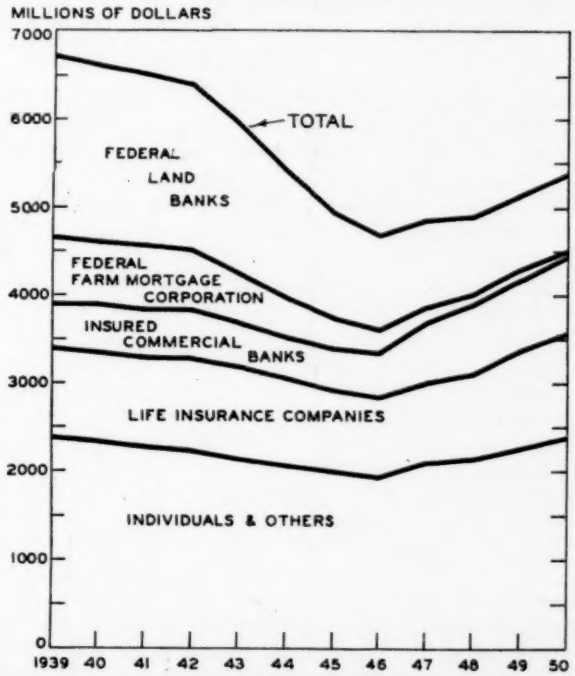
Automatic Parts Production

A completely new method of mass production in metalworking industries has been introduced by the Arma Corporation, a subsidiary of the American Bosch Corporation. An electronic attachment using a "piano roll" device with blueprint data punched in rows of dots on paper rolls provides precision production control on the standard lathe without human aid, except for loading and unloading the machine. Models costing about $1,500 can control repetitive output electronically, saving as much as 75 percent of the time normally required to make a standard machine part to tolerances as fine as plus or minus a fraction of one-thousandth of an inch. They can be applied to almost any machine tool.

Farm Mortgage Debt

In 1949, for the fourth consecutive year since the 34-year low on January 1, 1946, farm mortgage debt was higher at the end of the year than at the beginning. The rate of advance in 1949 was three times greater than in 1946 or 1947 and one-third higher than it had been in 1948. As shown by the chart, the only reduction in 1949 was recorded by the Federal Farm Mortgage Corporation, which had no authority to make new loans. Loans held by life insurance companies have been expanding since 1946, loans by commercial banks started rising in 1944, and individual and other loans have gone up since 1946. The outstanding loans of the Federal Land Banks, however, rose last year for the first time since 1936. As in 1948, loans by life insurance companies showed the largest percentage gain, rising 13 percent to $1,172 million.

FARM MORTGAGE DEBT: BY PRINCIPAL LENDER GROUPS



Source: *Agr. Finance Review*, U. S. Dept. of Agr.

THE RAIL CARLOAD FREIGHT TRAFFIC PATTERN OF ILLINOIS

ROBERT W. HARBESON, Associate Professor of Economics

The outstanding feature of the rail carload freight traffic pattern of Illinois, when viewed in terms of broad commodity groupings, is the heavy preponderance of traffic confined to Illinois and the five surrounding states. The accompanying table shows that more than 50 percent of the rail carload freight traffic originating in Illinois in 1948 terminated in Illinois, and that about 75 percent terminated in Illinois and the five surrounding states. Similarly, over 44 percent of the rail carload traffic terminating in Illinois also originated in Illinois and the five surrounding states.

These facts are brought out by new statistical data made available as a result of an order of the Interstate Commerce Commission requiring all Class I railroads ($1 million gross operating revenue or more) to file with the Commission a copy of every hundredth waybill representing the termination of carload freight. The carriers were also required to furnish information not obtainable from the waybills, particularly the kind of rate on which the shipment moved, whether class, exception, or commodity. The ICC's Bureau of Traffic inserted on the waybills the shortest rail-line distance and the applicable first class rate. The waybill data, with this additional information, were then processed and tabulated by the Commission's Bureau of Transport Economics and Statistics.

The primary objectives of this work, as stated by the ICC, were "to portray the traffic pattern and rate structures of the United States in terms of (1) groups and classes of commodities, (2) intraterritorial and interterritorial movements, (3) short-line distances, (4) type of rate, (5) rates charged, and (6) relation of the rates charged to the first class rate." (*61st Annual Report,* 1947, p. 142). Other objectives were to furnish information which would permit the development of an index of freight rates for particular commodities and for all commodities combined, and to obtain information as to the extent of circuitous routing.

Since 1940 the Commission has published statistics showing originated and terminated traffic by states, but not state-to-state movements. In other words, prior to the waybill studies it was impossible to determine where the freight which originated in any particular state terminated or where the freight which terminated in any particular state had originated. The waybill studies have made such data available on a quarterly basis for 1947 and 1948, but unfortunately their publication for later periods has been discontinued for budgetary reasons.

The one percent sample of waybills if expanded to one hundred percent will not agree with the actual figures for terminated tonnage shown in the ICC's publication *Freight Commodity Statistics,* for two reasons. First, there is a sampling error, which varies from less than one percent for movements of 10,000 carloads or more, to 3 percent for movements of 1,000 to 10,000 carloads, and to 10 percent or more for movements of 100 carloads or less. Second, there are differences in the reporting practices employed for the waybill studies and the *Freight Commodity Statistics,* as, for example, on rail-water-rail hauls where separate waybills are issued for each rail haul, whereas for purposes of the freight commodity statistics only one origination and one termination are reported.

Commodity Differences

The degree to which the traffic originating or terminating in Illinois was confined to Illinois and the five surrounding states varied considerably among the commodity groups. For Animals and Products, only 15 percent of the carload tonnage originating in Illinois terminated in Illinois and the five surrounding states, whereas the corresponding figure for Products of Mines was about 92 percent. Conversely, about 21 percent of the tonnage of Products of Forests terminating in Illinois originated in Illinois and the five surrounding states, but the corresponding figure for Products of Mines was more than 81 percent.

Additional information of interest is supplied by the available waybill studies of individual commodity classes. One of these, based on 1947 data, relates to one of Illinois' most important products, bituminous coal. This study shows that of the carload bituminous coal tonnage originating in Illinois about 69 percent also terminated in

PERCENTAGE DISTRIBUTION OF RAIL CARLOAD TONNAGE MOVING BETWEEN ILLINOIS AND SURROUNDING STATES, BY COMMODITY GROUPS

(Based on ICC 1% waybill sample for 1948)

Movement	Products of Agriculture	Animals and Products	Products of Forests	Products of Mines	Manufactures and Miscellaneous	Total
From Illinois to:						
Illinois	41.84	9.65	41.48	70.56	26.48	50.62
Indiana	7.42	2.12	13.13	5.37	14.99	8.81
Iowa	1.76	.25	5.63	6.21	3.29	4.50
Kentucky	2.65	.69	3.45	.17	1.15	.87
Missouri	3.31	.83	1.68	5.76	3.66	4.60
Wisconsin	1.34	1.83	5.65	3.69	9.02	5.10
Total, six states	58.32	15.37	71.02	91.76	58.59	74.50
All other states	41.68	84.63	28.98	8.24	41.41	25.50
To Illinois from:						
Illinois	46.53	12.01	7.50	53.00	29.77	44.39
Indiana	3.69	2.28	.79	11.81	9.09	9.76
Iowa	9.41	21.93	.17	.12	3.03	2.20
Kentucky	.34	.80	1.55	11.69	.63	7.15
Missouri	4.32	5.66	6.06	1.64	4.97	2.98
Wisconsin	2.67	6.35	4.73	3.04	3.95	3.33
Total, six states	66.96	49.03	20.80	81.30	51.44	69.81
All other states	33.04	50.97	79.20	18.70	48.56	30.19

Source: ICC, Carload Waybill Analyses, 1948. Statements Nos. 4838, 492, 498, 4920.

Illinois and more than 94 percent in Illinois and the five surrounding states. Of the tonnage of this commodity terminating in Illinois about 59 percent also originated in Illinois, about 86 percent in Illinois and the five surrounding states, and almost 98 percent in these states plus West Virginia. There was some reciprocal movement of coal between Illinois and Indiana. This movement may be explained by differences in the grade and quality of coal, variations in availability of supplies at particular times, and possibly by rate-structure considerations. The railways originated 46,890,000 tons and terminated 40,469,000 tons of bituminous coal in Illinois during 1947. This represented about 41 percent of the total railway carload tonnage originated, and 37 percent of the tonnage terminated, in the State in that year.

Traffic in petroleum and petroleum products, as might be expected, is much less confined to Illinois and the five surrounding states than is the traffic in bituminous coal. Nevertheless the traffic in these products, both as a group and indvidually, is confined to relatively few states. Thus, of the total carload traffic in petroleum and petroleum products originating in Illinois in 1948 about 31 percent also terminated in Illinois and about 95 percent in Illinois and twelve other states. The most important of the latter, in order, were Ohio, Wisconsin, Michigan, Indiana, and Missouri. Of the total carload traffic in these products terminating in Illinois about 33 percent orginated in Illinois and about 96 percent in Illinois and eight other states. Of the other states, Texas was overwhelmingly the most important, contributing over 34 percent of the tonnage of petroleum and petroleum products terminating in Illinois.

An interesting fact is that over 87 percent of the tonnage of crude petroleum terminated by rail in Illinois in 1948 came from Texas and Wyoming, despite important sources of supply closer at hand in Illinois, Kansas, and Oklahoma. Apparently, the presence or absence of pipeline competition does not explain this circumstance to any important extent, since Illinois has direct or indirect pipeline connections with all the producing areas mentioned. Among the possible explanations may be mentioned rate-structure considerations, the necessity of securing adequate supplies of the grades and kinds of crude petroleum desired, and the fact that those companies refining or distributing petroleum products in Illinois which import crude petroleum by rail may own or control their principal producing properties in Texas and Wyoming.

Moreover, although almost all the crude petroleum terminated by rail in Illinois came from outside the State, over 88 percent of the crude petroleum originated by rail in Illinois moved to other states. It should be noted, however, that only 144,000 tons of crude petroleum were originated by rail in Illinois as compared with 1,264,000 tons terminated, and that most of the Illinois crude moved to states farther away than Illinois from the largest sources of production.

Finally, there was some reciprocal movement of refined petroleum products between Illinois and other states, notably Indiana. While availability of supplies, differences in grades of products, and rate-structure considerations explain this circumstance in some measure, it is probable that an important part of the explanation is to be found in the market structure of the petroleum industry. The features of the latter which are important in this connection are: (1) the sale of most refined petroleum products at retail under brands and trade marks to which more or less consumer preference is attached; (2) a certain degree of price leadership by the large oil companies; and (3) in some instances, a policy of maintaining either uniform retail and/or dealer prices for refined products over considerable areas, or price differentials unrelated to transportation costs. Under these circumstances it is possible for a given firm to penetrate market areas which would normally be tributary to other sellers by reason of lower transportation costs, and to the extent that this is the case unnecessary transportation is involved.

NOTE: Tables showing the movements between Illinois and all other states for the commodity groups and individual commodity classes here considered may be obtained upon application to the Bureau of Economic and Business Research, University of Illinois, Urbana, Illinois.

Economic Effects of the War

(Continued from page 2)

reduction in living standards; and any temporary lag in our military programs will be overcome as soon as we place our productive machine under the controls needed to make rearmament effective.

With the exception of a few key industries, our industrial capacity was far from fully utilized at the time of the outbreak in Korea. Few industries had been operating even a 6-day week. Almost insignificant was the number that were operating more than one shift. Output of most kinds of goods can be expanded without any need for new facilities. And key industries like the steel industry will be constantly expanding, so that continual increases in output will moderate the restrictions on steel-consuming industries.

The labor supply is also ample for a large expansion of production. The president's proposed increase of 600,000 in the armed forces would not reduce current unemployment of 3 million below a normal full employment level; and as the emergency progresses, millions of additional workers can be obtained by further reducing unemployment and by drawing in nonworkers like housewives and students. Still others can be shifted from nonessential occupations to necessary industrial jobs. Working hours can be increased all along the line. And rising productivity will step up output even more rapidly.

The expansion of output should in many industries help to restrain price advances. This is particularly true in some of the semidurable lines, where margins of unused capacity have been substantial in recent months. Surpluses of agricultural commodities will also restrain advances in prices of major crops; and although there could be further rapid advances in meat prices if consumer buying shifted in that direction, consumers are initially more likely to concentrate their purchases on durables and semidurables. These restraints on prices will tend to hold down the cost of living and to moderate demands for higher wage rates. Thus, while prices seem likely to keep moving up during the months ahead, the upward movement seems likely to be slower than the initial upsurge would suggest.

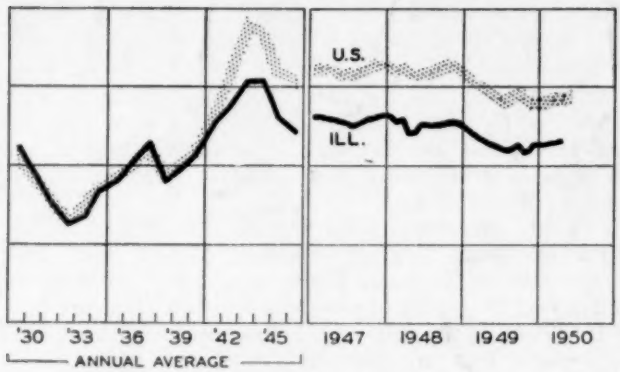
In short, pleas for moderation have a reasonable economic foundation as well as an element of whistling in the dark. Disregarding them can only push the boom to a point where another temporary letdown becomes inevitable.

VLB

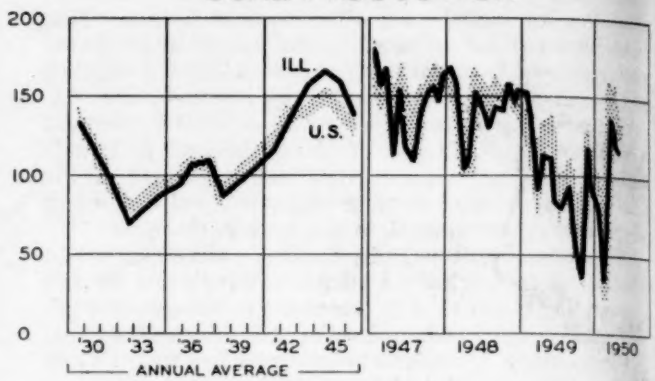
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

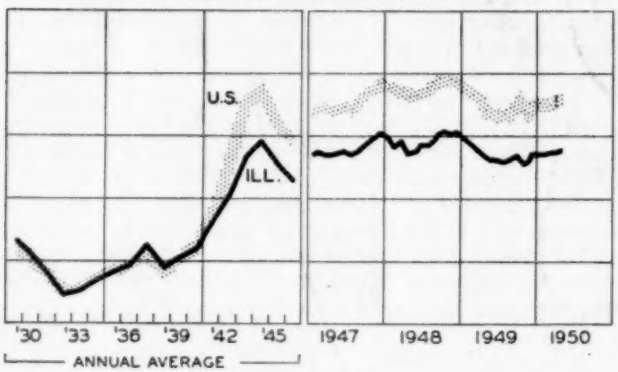
EMPLOYMENT–MANUFACTURING



COAL PRODUCTION



PAYROLLS–MANUFACTURING



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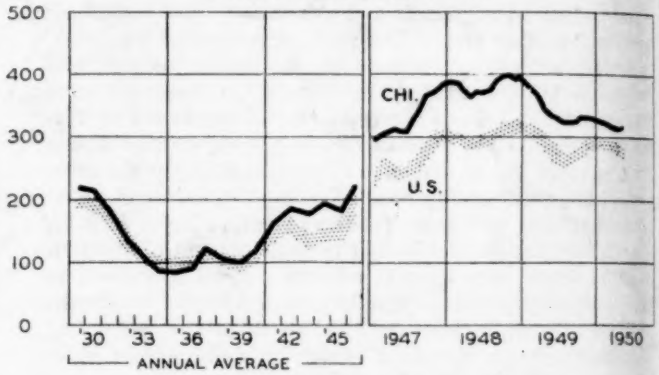

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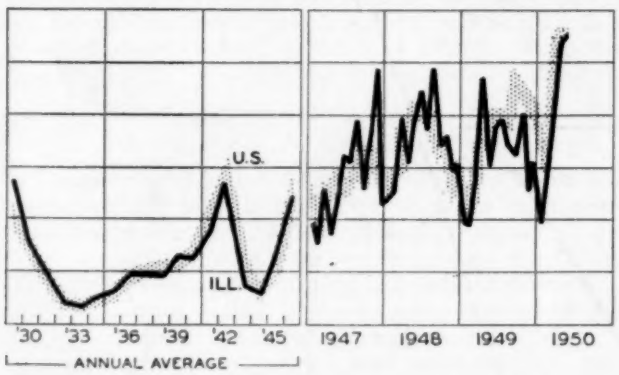
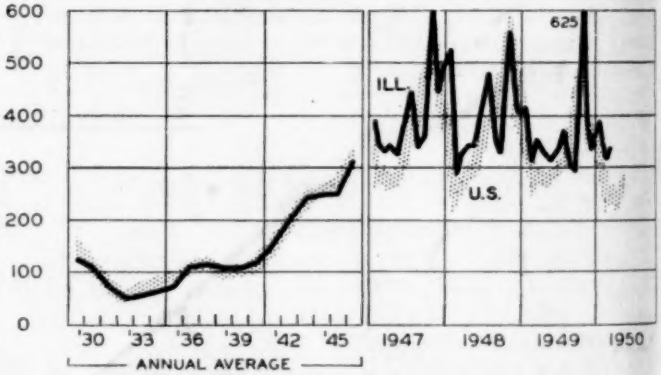


CASH FARM INCOME



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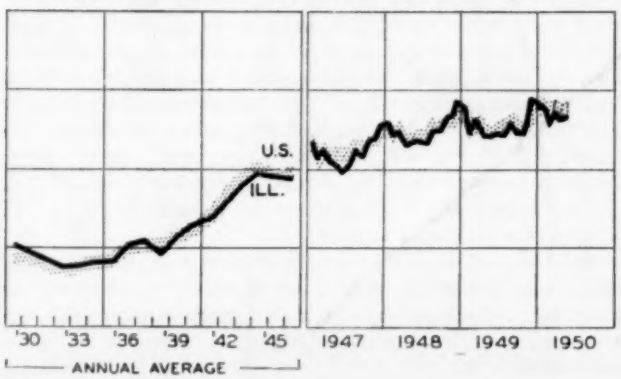
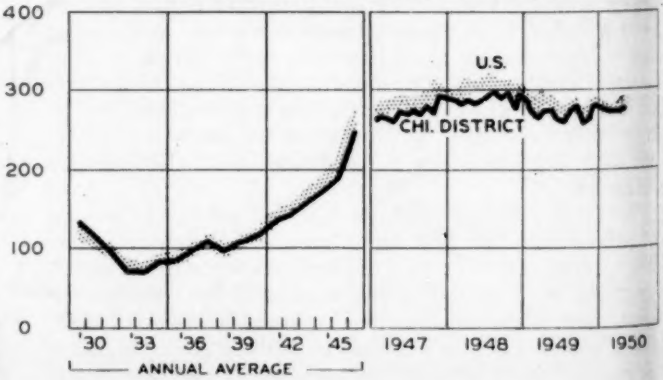
DEPARTMENT STORE SALES